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AMERICAN LEGION HOSPITAL

FINANCIAL REPORT

DECEMBER 31, 2008

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

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CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS	1
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated balance sheets	2 and 3
Consolidated statements of operations	4
Consolidated statements of changes in net assets	5
Consolidated statements of cash flows	6 and 7
Notes to consolidated financial statements	9-18
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	19 and 20
Schedule of findings and questioned costs	21
Schedule of prior year findings	22



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
American Legion Hospital
Crowley, Louisiana

We have audited the accompanying consolidated balance sheets of American Legion Hospital (a nonprofit organization) as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Legion Hospital as of December 31, 2008 and 2007, and the results of its operations, changes in net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2009, on our consideration of American Legion Hospital's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Broussard, Poché, Lewis & Breaux, L.L.P.

Crowley, Louisiana
April 23, 2009

AMERICAN LEGION HOSPITAL
CONSOLIDATED BALANCE SHEETS
December 31, 2008 and 2007
(In Thousands)

	<u>2008</u>	<u>2007</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,423	\$ 1,074
Certificates of deposit	3,005	2,752
Patient accounts receivable, net of estimated uncollectibles of \$2,113 and \$2,188 at 2008 and 2007, respectively	7,351	6,744
Intermediary receivable on cost reports	836	822
Other receivables	139	233
Inventories	1,009	937
Prepaid expenses	757	790
Notes receivable	<u>299</u>	<u>552</u>
Total current assets	<u>\$ 14,819</u>	<u>\$ 13,904</u>
OTHER ASSETS		
Assets limited as to use:		
Cash and cash equivalents	\$ 1,226	\$ 1,222
Certificates of deposit	6,510	5,263
Investments	971	942
Investments - stock	73	73
Notes receivable	390	745
Restricted assets:		
Cash and cash equivalents	13	10
Certificates of deposit	258	211
Treasury notes	<u>-</u>	<u>49</u>
Total other assets	<u>\$ 9,441</u>	<u>\$ 8,515</u>
PROPERTY, PLANT AND EQUIPMENT, less accumulated depreciation of \$22,798 at 2008 and \$22,019 at 2007		
	<u>\$ 8,972</u>	<u>\$ 8,912</u>
Total assets	<u>\$ 33,232</u>	<u>\$ 31,331</u>

See Notes to Consolidated Financial Statements.

	<u>2008</u>	<u>2007</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 1,538	\$ 908
Health insurance claims payable	195	198
Accrued expenses	<u>652</u>	<u>609</u>
Total current liabilities	<u>\$ 2,385</u>	<u>\$ 1,715</u>
LONG-TERM LIABILITIES		
Long-term accrued expenses	<u>\$ 9</u>	<u>\$ 10</u>
MINORITY INTEREST IN SUBSIDIARY	<u>\$ 169</u>	<u>\$ 167</u>
NET ASSETS		
Unrestricted	\$ 30,398	\$ 29,169
Permanently restricted - trust	<u>271</u>	<u>270</u>
Total net assets	<u>\$ 30,669</u>	<u>\$ 29,439</u>
Total liabilities and net assets	<u><u>\$ 33,232</u></u>	<u><u>\$ 31,331</u></u>

AMERICAN LEGION HOSPITAL

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2008 and 2007

(In Thousands)

	<u>2008</u>	<u>2007</u>
UNRESTRICTED NET ASSETS:		
Unrestricted revenue:		
Net patient service revenue - hospital	\$ 35,536	\$ 33,841
Net patient service revenue - clinic practices	741	756
Net patient revenue - Open Air MRI	984	1,164
Net patient service revenue	<u>\$ 37,261</u>	<u>\$ 35,761</u>
Other operating revenue	561	721
Total operating revenue	<u>\$ 37,822</u>	<u>\$ 36,482</u>
Operating expenses:		
Routine and nursing services	\$ 10,374	\$ 9,706
Ancillary services	10,160	9,916
Physician offices	789	804
Administrative services	920	842
Fiscal and support services	5,205	5,039
General services	4,365	4,028
Depreciation and amortization	1,073	1,188
Interest	-	15
Provision for doubtful receivables	3,989	3,659
Total operating expenses	<u>\$ 36,875</u>	<u>\$ 35,197</u>
Excess of operating revenue over operating expenses	<u>\$ 947</u>	<u>\$ 1,285</u>
Nonoperating revenue (expense):		
Interest revenue	\$ 420	\$ 467
Net unrealized gain/(loss) on investments	(4)	12
Other	34	12
Total non-operating revenue	<u>\$ 450</u>	<u>\$ 491</u>
Increase in unrestricted net assets before minority interest	\$ 1,397	\$ 1,776
Minority interest	<u>(168)</u>	<u>(214)</u>
Increase in unrestricted net assets	\$ 1,229	\$ 1,562
PERMANENTLY RESTRICTED ASSETS (TRUST):		
Interest revenue net of transfers	<u>1</u>	<u>1</u>
Increase in net assets	<u>\$ 1,230</u>	<u>\$ 1,563</u>

See Notes to Consolidated Financial Statements.

AMERICAN LEGION HOSPITAL
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years Ended December 31, 2008 and 2007
(In Thousands)

	<u>Unrestricted</u>	<u>Permanently Restricted- Trust</u>	<u>Total</u>
Balance - December 31, 2006	\$ 27,607	\$ 269	\$ 27,876
Increase in net assets	<u>1,562</u>	<u>1</u>	<u>1,563</u>
Balance - December 31, 2007	\$ 29,169	\$ 270	\$ 29,439
Increase in net assets	<u>1,229</u>	<u>1</u>	<u>1,230</u>
Balance - December 31, 2008	<u>\$ 30,398</u>	<u>\$ 271</u>	<u>\$ 30,669</u>

See Notes to Consolidated Financial Statements.

AMERICAN LEGION HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2008 and 2007

(In Thousands)

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 1,230	\$ 1,563
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	1,073	1,188
Amortization	-	1
Loss on disposal of assets	-	4
Provision for doubtful receivables	3,989	3,659
Other - minority interest	2	20
Net unrealized (gain) loss on investments	4	(12)
Change in current assets and liabilities:		
(Increase) decrease in receivables	(4,516)	(3,185)
(Increase) decrease in inventories	(72)	9
(Increase) decrease in prepaid assets	33	(78)
(Increase) decrease in notes receivable	608	(29)
(Decrease) increase in payables	627	(344)
(Decrease) increase in accrued expenses	43	(33)
Net cash provided by operating activities	<u>\$ 3,021</u>	<u>\$ 2,763</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from redemption of treasury bills	\$ 49	\$ 30
Purchase of investments	(33)	(82)
Purchase of certificates of deposit, net of renewals	(1,547)	(560)
Purchase of property and equipment	(1,133)	(1,566)
Proceeds from sale of property and equipment	-	16
Net cash used in investing activities	<u>\$ (2,664)</u>	<u>\$ (2,162)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term borrowing including capital lease obligations	\$ (1)	\$ (359)
Net cash used by financing activities	<u>\$ (1)</u>	<u>\$ (359)</u>
Increase in cash and cash equivalents (subtotals forward)	<u>\$ 356</u>	<u>\$ 242</u>

(Continued)

AMERICAN LEGION HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ended December 31, 2008 and 2007

(In Thousands)

	<u>2008</u>	<u>2007</u>
Increase (decrease) in cash and cash equivalents (subtotals forwarded)	\$ 356	\$ 242
Cash and cash equivalents:		
Beginning	<u>2,306</u>	<u>2,064</u>
Ending	<u>\$ 2,662</u>	<u>\$ 2,306</u>
CASH AND CASH EQUIVALENTS SHOWN ON BALANCE SHEET		
Cash and cash equivalents	\$ 1,423	\$ 1,074
Restricted and assets limited as to use cash and cash equivalents	<u>1,239</u>	<u>1,232</u>
	<u>\$ 2,662</u>	<u>\$ 2,306</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ -</u>	<u>\$ 8</u>

See Notes to Consolidated Financial Statements.

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AMERICAN LEGION HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands)

Note 1. Nature of Business and Significant Accounting Policies

Nature of business:

American Legion Hospital is incorporated under the State of Louisiana as a nonprofit corporation for scientific, educational, charitable, and patriotic purposes. The Hospital provides inpatient, outpatient and emergency care services for residents of Acadia Parish and the surrounding area.

Principles of consolidation:

The consolidated financial statements include the accounts of Professional Arts Center, Inc., a 67% owned subsidiary of the Hospital. Also included in the consolidated financial statements is Open Air MRI of Acadiana, L.L.C., a 51% owned subsidiary of the Hospital. All significant intercompany accounts and transactions have been eliminated.

Significant accounting policies:

The Hospital reports in accordance with the "Health Care Organizations Audit Guide" published by the American Institute of Certified Public Accountants. Accounting policies that are unique to nonprofit hospitals are as follows:

Funds restricted as to use by the donor are recorded in restricted net assets and resources set aside for board designated funds are considered to be unrestricted.

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Other accounting policies followed by the Hospital which are not unique to hospital reporting are as follows:

Treasury notes and treasury bills are stated at amortized cost, which approximates fair value.

Inventories are stated at the lower of cost or market. As applied to cost, the standard cost method (which approximates last-in, first-out) is used to value inventory items.

Loan costs are amortized over the life of the loan using the straight-line method.

AMERICAN LEGION HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands)

Note 1. Nature of Business and Significant Accounting Policies (continued)

Property, plant, and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful lives using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital is capitalized as a component of the cost of acquiring those assets.

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. A review of such assets of the Hospital has not indicated any material effect on the Hospital's financial position.

Patient accounts receivables are carried at the original billed amount less deductions for contractuals and other discounts as well as an estimate for uncollectible accounts based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for uncollectible accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Patient accounts receivables are written-off when deemed uncollectible which occurs after management has used reasonable collection efforts. Recoveries of patient accounts receivables previously written-off are recorded when received. The Hospital does not have a policy of charging interest on past due balances in patient accounts receivable.

For purposes of reporting cash flows, the Hospital considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

All costs associated with advertising and marketing are expensed in the year incurred. Advertising expense for the years ended December 31, 2008 and 2007 amounted to \$36 and \$38, respectively.

Recent Pronouncements:

FASB issued Statement No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement applies to other accounting pronouncements that require or permit fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Hospital adopted this Statement as of January 1, 2008. The adoption of this pronouncement had no effect on the financial statements of the Hospital.

Effective January 1, 2008, the Hospital adopted Statement of Financial Accounting Standards, "The Fair Value Option for Financial Assets and Liabilities" (SFAS No. 159). SFAS No. 159 generally permits the measurement of selected eligible financial instruments at fair value at specified election dates. Upon adoption of SFAS 159, the Hospital did not elect to apply the fair value measurement option for any of its financial instruments.

AMERICAN LEGION HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands)

Note 2. Net Patient Service Revenues

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

•Medicare.- Inpatient acute care services (and related capital costs) rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. Acute care service rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient psychiatric services related to Medicare beneficiaries were paid based on a cost reimbursement methodology for services ending December 31, 2004. On January 1, 2005, Medicare began reimbursing inpatient psychiatric services under an inpatient psychiatric prospective payment system. This new payment system was to be phased in over a three year period. Full payment under this new payment method for psychiatric services began in 2008. The Hospital's outpatient services related to Medicare beneficiaries are reimbursed either on a prospective determined rate or a fee schedule. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2006.

•Medicaid - Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per day. Certain outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, subject to certain limits, while other outpatient services are reimbursed on a fee schedule. The Hospital is reimbursed for outpatient services at an interim rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through December 31, 2005.

Estimated amounts due from Medicare and Medicaid services are included in receivables at year-end. During the years ended December 31, 2008 and 2007, approximately 75% of the Hospital's gross inpatient revenue was furnished to Medicare and Medicaid beneficiaries, while 58% and 56% respectively, of the Hospital's gross outpatient revenue, was furnished to Medicare and Medicaid beneficiaries. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term. As a result of retroactive adjustments of certain prior year cost reports, the Hospital recorded changes in estimates resulting in an increase in net patient service revenues of approximately \$69 and \$132 during the years December 31, 2008 and 2007, respectively.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these arrangements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates, and fee schedules.

AMERICAN LEGION HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands)

Note 3. Notes Receivable

The detail of notes receivable at December 31, 2008 and 2007, are summarized as follows:

	<u>2008</u>	<u>2007</u>
Notes receivable - employees, net of allowance of \$17 and \$10, respectively	\$ 121	\$ 139
Notes receivable - physician, net of allowance of \$111 and \$0, respectively	541	1,158
Notes receivable - other	27	-
	<u>\$ 689</u>	<u>\$ 1,297</u>

In the normal course of business, the Hospital contracts with non-employee physicians that it has recruited to move to the facility's geographical area to establish a practice. Under the contract, the Hospital normally makes payments for medical education debt, net income guarantees, stipends and capital purchases. These payments are considered a loan and must be paid back by the physician, unless certain terms under the contract are met including years of practice within the area. Normally, if all conditions are met under the contract these payments are amortized, to expense, over the contract term.

The Hospital also contracts with employees, whereby the Hospital loans specified amounts to the employee for medical education. These payments are amortized over the terms of the contract upon the employees' completion of specified education. If terms of the contract are not met, the employee is required to reimburse the Hospital the unamortized amount.

Note 4. Assets Limited as to Use

The composition of assets limited as to use at December 31, 2008 and 2007, is set forth in the following table. Investments are stated at fair value.

Board designated for improvements and replacement of Hospital assets as they are retired and for insurance losses that may be within the policy deductibles

	<u>2008</u>	<u>2007</u>
Cash	\$ 40	\$ 385
Certificates of deposit	5,906	4,663
Louisiana Hospital Investment Pool	571	554
	<u>\$ 6,517</u>	<u>\$ 5,602</u>

Board designated for self-insurance program for hospitalization and medical coverage for the employees of the Hospital

Cash	\$ 1,186	\$ 837
Certificates of deposit	604	600
Louisiana Hospital Investment Pool	400	388
	<u>\$ 2,190</u>	<u>\$ 1,825</u>
Total assets limited as to use	<u>\$ 8,707</u>	<u>\$ 7,427</u>

Income derived from the Board designated funds at December 31, 2008 and 2007 was \$364 and \$255, respectively.

AMERICAN LEGION HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In Thousands)

Note 4. Assets Limited as to Use (continued)

Investments held in the Louisiana Hospital Investment Pool are carried at market or appraised value, and realized and unrealized gains and losses are reported in the statements of operations. Activity for the year ended December 31, 2008 and 2007 is summarized below:

	2008	2007
Investments, beginning of year	\$ 942	\$ 891
Investment returns (net of expenses, of \$3 for 2008 and 2007):		
Interest revenue	\$ 33	\$ 39
Net unrealized gain (loss)	(4)	12
Total return on investments	29	51
Investments, end of year	<u>\$ 971</u>	<u>\$ 942</u>

Note 5. Property, Plant and Equipment

The details of property, plant and equipment and the related accumulated depreciation at December 31, 2008 and 2007 are summarized as follows:

	2008		2007	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 694	\$ -	\$ 694	\$ -
Land improvements	668	540	645	513
Building and improvements	14,835	9,860	14,627	9,578
Equipment	15,443	12,398	14,836	11,928
Construction in progress	130	-	129	-
	<u>\$ 31,770</u>	<u>\$ 22,798</u>	<u>\$ 30,931</u>	<u>\$ 22,019</u>

Included in the above, construction in progress includes amounts dealing with the northern building expansion and a new health information system for the Hospital.

Depreciation expense for the years ended December 31, 2008 and 2007 amounted to \$1,073 and \$1,188, respectively.

AMERICAN LEGION HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands)

Note 6. Trust Agreement (Permanently Restricted Net Assets)

On July 23, 1993, the Hospital placed \$250 into trust. American Legion Post 15 is the income beneficiary and the Hospital is the principal beneficiary. The Post will receive 90% of the income derived from the trust's investments. The remaining 10% can be used to pay expenses of the trust. Any remaining income after expenses is to be reinvested. Investments are stated at amortized cost, which approximates fair value.

The assets of the trust are as follows:

	<u>2008</u>	<u>2007</u>
Cash in bank	\$ 13	\$ 10
Certificate of deposit	258	211
U.S. Treasury notes	-	49
Total	<u>\$ 271</u>	<u>\$ 270</u>

Note 7. Employee Retirement Plan

The Hospital offers a profit sharing plan to its employees. New participants must have one year of service in order to be eligible in the plan. The Hospital contributions vest over a six year graded vesting schedule for the years ended 2008 and 2007. All participants must have worked 1,000 hours (including prior year service) and be employed by the Hospital at December 31 of the plan year in order to be eligible to share in the Hospital's contributions. Contributions to the plan are at the discretion of the Hospital's board. The Hospital's contributions to the plan for the years ended December 31, 2008 and 2007 were \$122 and \$107, respectively.

The Hospital also offers a 403(b) plan that is available to all Hospital employees, in which only employees contribute to the plan.

Note 8. Concentrations of Credit Risk

The Hospital maintains cash balances at several financial institutions. The amount on deposit in financial institutions exceeded the \$250 federally insured limit at December 31, 2008 by approximately \$11,919 and exceeded the \$100 federally insured limit at December 31, 2007 by approximately \$10,076. The Hospital has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash.

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. The mix of receivables at December 31, 2008 and 2007 was as follows:

	<u>2008</u>	<u>2007</u>
Medicare	23%	22%
Medicaid	13	11
Other third-party payors and patients	<u>64</u>	<u>67</u>
	<u>100%</u>	<u>100%</u>

AMERICAN LEGION HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands)

Note 9. Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	<u>2008</u>	<u>2007</u>
Health care services	\$ 33,184	\$ 31,946
General and administrative	<u>3,691</u>	<u>3,251</u>
	<u>\$ 36,875</u>	<u>\$ 35,197</u>

Note 10. Charity Care

The amount of charges forgone for services and supplies furnished under the Hospital's charity care policy aggregated approximately \$355 and \$531 in 2008 and 2007, respectively. The Hospital believes that a significant amount of the provision for doubtful receivables would qualify as charity care. However, due to lack of documentation provided by patients, it cannot be reclassified as such.

Note 11. Commitments and Contingencies

Self-Insured Medical Benefits

The Hospital has a self-insurance program for hospitalization and medical coverage for substantially all of its employees. The Hospital limits its liability through the use of a specific stop-loss policy from a reinsurer in an amount of \$100 per person per plan year 2008-09, 2007 - 08 and 2006 - 07. Management believes they have adequately provided for all claims incurred in the accompanying financial statements.

Professional Liability Risk

The Hospital participates in the Louisiana Patient's Compensation Fund established by the State of Louisiana to provide medical professional liability coverage to healthcare providers. The fund provides for \$400 in coverage per occurrence above the first \$100 for which the Hospital is at risk. In connection with the establishment of the Patient's Compensation Fund, the State of Louisiana enacted legislation limiting the amount of healthcare provider settlement for professional liability to \$100 per occurrence and limiting the Patient's Compensation Fund's exposure to \$400 per occurrence.

Assets limited as to use include a certificate of deposit in the amount of \$125 at December 31, 2008 and 2007, which is pledged to secure membership in the Louisiana Patient's Compensation Fund.

Litigation

The Hospital is involved in litigation arising in the course of business. The Hospital evaluates contingencies based upon the best available evidence. After consultation with legal counsel, management has recorded a provision for these claims in an amount of \$75 for 2008 and 2007, respectively, which is included in payables on the financial statements. To the extent that resolution of contingencies results in amounts which vary from the Hospital's estimates, future earnings will be charged or credited.

AMERICAN LEGION HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands)

Note 11. Commitments and Contingencies (continued)

Purchase Commitments

I.V. Pumps

Effective June 1, 2001, the Hospital entered into an agreement to lease seventy-five I.V. pumps at no charge with a purchase commitment of 9 disposable units per year for seven years. Effective October 1, 2004, this agreement was amended to lease ninety I.V. pumps at no charge with a purchase commitment of 11 disposable units per year for the same term as the original agreement. In 2008, the Hospital extended the lease for a one year period ending in May of 2009. The minimum estimated payments under this purchase commitment are as follows:

2009	<u>\$ 10</u>
------	--------------

Total purchases under this commitment were \$52 and \$48 in 2008 and 2007, respectively.

Note 12. Operating Leases

The Hospital leases various equipment and facilities under operating leases expiring at various dates through 2010. Total rental expense in 2008 and 2007 was \$17 and \$36, respectively. The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2008, that have remaining lease terms in excess of one year.

2009	20
2010	<u>8</u>
Total	<u>\$ 28</u>

Note 13. Breakdown of Consolidated Net Income

	<u>American Legion Hospital</u>	<u>Professional Arts Center</u>	<u>Open Air MRI</u>	<u>Total</u>	<u>Elimination Entries</u>	<u>Consolidated Total</u>
<u>2008</u>						
Net income (loss)	<u>\$ 1,232</u>	<u>\$ (5)</u>	<u>\$ 345</u>	<u>\$ 1,572</u>	<u>\$ (342)</u>	<u>\$ 1,230</u>
<u>2007</u>						
Net income (loss)	<u>\$ 1,550</u>	<u>\$ (3)</u>	<u>\$ 435</u>	<u>\$ 1,982</u>	<u>\$ (419)</u>	<u>\$ 1,563</u>

AMERICAN LEGION HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In Thousands)

Note 14. Fair Value of Financial Instruments

In accordance with SFAS No. 157, the Hospital groups financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 — Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 — Valuations for assets and liabilities traded in less active dealer or broker markets. For example, municipal securities valuations are based on markets that are currently offering similar financial products. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3 — Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Below is a table that presents information about certain assets and liabilities measured at fair value on a recurring basis:

	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Louisiana Hospital Investment Pool	\$ <u>971</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>971</u>

Louisiana Hospital Investment Pool securities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	<u>Fair Value Measurements Using Significant Unobservable Inputs Level 3</u>
Beginning balance	\$ 942
Net unrealized gain (loss)	(4)
Purchases - interest income reinvested	<u>33</u>
Ending balance	\$ <u>971</u>

AMERICAN LEGION HOSPITAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands)

Note 15. Financing Subsequent to December 31, 2008

Subsequent to December 31, 2008, the Hospital negotiated bank financing by pledging Hospital certificates of deposit of \$1,500. Under the terms of the financing, the Hospital was granted a promissory note in the amount of \$1,500 with variable interest starting at 4% (1% over the Independent Index of 3%). The term of the note is from January 12, 2009 to January 12, 2014. The proceeds from this borrowing will be used to purchase capital equipment for the facility.



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Sidney L. Broussard, CPA 1925-2005
Leon K. Poché, CPA 1984
James H. Breau, CPA 1987
Erma R. Walton, CPA 1988
George A. Lewis, CPA 1992
Geraldine J. Wimberley, CPA 1995
Lawrence A. Cramer, CPA 1999
Ralph Friend, CPA 2002
Donald W. Kelley, CPA 2005
George J. Trappey, III, CPA 2007
Terrel P. Dressel, CPA 2007
Herbert Lemoine II, CPA 2008

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
American Legion Hospital
Crowley, Louisiana

We have audited the consolidated financial statements of American Legion Hospital (a nonprofit organization) as of and for the year ended December 31, 2008, and have issued our reports thereon dated April 23, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered American Legion Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of American Legion Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of American Legion Hospital's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of American Legion Hospital's consolidated financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the consolidated financial statements will not be prevented or detected by the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

To the Board of Directors
American Legion Hospital

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the American Legion Hospital's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the American Legion Hospital's management and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Broussard, Poche, Lewis & Breaux, L.L.P.

Crowley, Louisiana
April 23, 2009

AMERICAN LEGION HOSPITAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2008

We have audited the consolidated financial statements of American Legion Hospital as of and for the year ended December 31, 2008, and have issued our report thereon dated April 23, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit of the financial statements as of December 31, 2008, resulted in an unqualified opinion.

Section I. Summary of Auditor's Reports

a. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses ☐Yes ☒No Significant Deficiency identified that is
not considered to be a material weakness ☐Yes ☒No

Compliance

Noncompliance Material to Financial Statements ☐Yes ☒No

Was a management letter issued ☐Yes ☒No

b. Federal Awards

The Hospital does not have any federal awards.

Section II. Financial Statement Findings

There were no findings noted in this year's audit.

Section III. Federal Award Finding and Questioned Costs

The Hospital does not have any federal awards.

AMERICAN LEGION HOSPITAL
SCHEDULE OF PRIOR YEAR FINDINGS
Year Ended December 31, 2008

THIS SCHEDULE HAS BEEN PREPARED BY MANAGEMENT

Section I. Internal Control and Compliance Material to the Financial Statements

The prior year's report did not include any findings.

Section II. Internal Control and Compliance Material to Federal Awards

The prior year's report did not include any federal awards.

Section III. Management Letter

The prior year's report did not include a management letter.